



STATE OF ALASKA
SUPPLEMENTAL BENEFITS SYSTEM
(A Component Unit of the State of Alaska)

Financial Statements

January 31, 2003 and 2002

(With Independent Auditors' Report Thereon)



701 West Eighth Avenue
Suite 600
Anchorage, AK 99501

Independent Auditors' Report

Division of Retirement and Benefits and
Members of the Alaska Public Employees' Retirement Board
State of Alaska Supplemental Benefits System:

We have audited the accompanying statements of fiduciary net assets of the State of Alaska Supplemental Benefits System (Plan), a Component Unit of the State of Alaska, as of January 31, 2003 and 2002, and the related statements of changes in fiduciary net assets for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net assets of the State of Alaska Supplemental Benefits System, a Component Unit of the State of Alaska, as of January 31, 2003 and 2002, and the changes in fiduciary net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 2, the Plan adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Government*, as amended, effective February 1, 2002.

The accompanying required supplementary information of management's discussion and analysis on pages 2 to 6 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

June 13, 2003



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STATE OF ALASKA
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Management's Discussion and Analysis

January 31, 2003 and 2002

The objective of Management's Discussion and Analysis is to help readers of the Supplemental Benefits System (the Plan) financial statements better understand the Plan's financial position and operating activities for the fiscal year ended January 31, 2003, with selected comparative information for the year ended January 31, 2002. This discussion should be read in conjunction with the financial statements and notes to the financial statements.

The Plan

The Plan was created by State of Alaska Statutes effective January 1, 1980, to provide benefits in lieu of those provided by the federal Social Security System (Social Security). All State of Alaska (State) employees who would have participated in Social Security, if the State had not withdrawn, participate in the Plan. Other employers whose employees participate in the State Public Employees' Retirement System and meet other requirements are eligible to have their employees participate in the Plan as provided by Alaska Statute. As of January 31, 2003 and 2002, there were fifteen other employers besides the State participating in the Plan. There were approximately 31,000 and 30,000 participants in the Plan as of January 31, 2003 and 2002, respectively.

The Division of Retirement and Benefits is responsible for Plan administration and recordkeeping. The Alaska State Pension Investment Board is responsible for the specific investment of moneys in the Plan.

There are two underlying components of the Plan. The Supplemental Annuity Plan, a 401(a) Defined Contribution Plan, contains the contributions made in lieu of Social Security. The Supplemental Annuity Plan contains over 99% of the assets, and 95% of the contribution activity described in the following financial statements. The Supplemental Benefits Plan, an IRC 129 Cafeteria Plan, contains voluntary contributions for the purchase of optional insurance benefits elected by each employee enrolled in the Supplemental Benefits Plan.

Financial Highlights

- The net assets held in trust for benefits at January 31, 2003, are \$1.575 billion. The net assets represent employer and employee contributions and investment income.
- The net assets of the Plan decreased by \$121.8 million, or approximately 7.2%, from the prior fiscal year.
- The Plan incurred a net investment loss of \$123.6 million in the 2003 fiscal year, compared to a \$91.8 million investment loss in the 2002 fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Plan's financial statements, which are comprised of the following:

- Statements of Fiduciary Net Assets
- Statements of Changes in Fiduciary Net Assets
- Notes to the Financial Statements

Statements of Fiduciary Net Assets – presents information on the Plan's assets and liabilities and the resulting net assets held in trust for pension and insurance benefits. This statement reflects the Plan's investments at fair value, along with cash and short-term investments, receivables, and other assets and liabilities.

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Statement of Changes in Fiduciary Net Assets – presents information showing how the Plan's net assets held in trust for benefits changed during the years ended January 31, 2003 and 2002. It reflects contributions by employees and employers along with investment income (or losses) during the period from individual participant directed investing activities. Deductions for participant withdrawals, benefit payments, and administrative expenses are also presented.

Notes to The Financial Statements – provides additional information that is essential to a full understanding of the data provided in the financial statements.

Investments

The Plan is participant directed, which means that the Plan's participants decide in which options to invest. Of total Plan Fiduciary Net Assets of \$1.575 billion, 99.5% of which, or \$1.567 billion, are specifically allocated to individual participant accounts.

Each participant designates how his or her contribution is to be allocated among the investment options. Each participant's account is credited with the participant's contributions and the appreciation or depreciation in unit value for the investment funds.

As of January 31, 2003, the following funds are available to participants for investment.

Collective Investment Funds

International Equity Fund – the purpose of this fund is to provide long-term capital appreciation. This fund invests principally in common and preferred stocks of foreign companies and securities that are convertible into such common stocks.

Small Cap Stock Trust Fund – the purpose of this fund is to provide long-term capital growth by investing primarily in stocks of small companies. This fund invests at least 65% of its total assets in the stocks and equity-related securities of small companies.

S&P 500 Stock Index Fund – the purpose of this fund is to provide income and capital appreciation matching the total return of the Standards & Poor's 500 Composite Stock Price Index.

Daily Government/Corporate Bond Fund – the purpose of this fund is to match or exceed the return of the Lehman Brothers Government/Credit Bond Index.

Short-term Investment Fund – the purpose of this fund is for the yield of the Fund to reflect short-term interest rates as it attempts to maintain a constant unit value.

Tactical Asset Allocation Fund – this fund invests in a mix of stocks and bonds, sometimes in a combination with a money market fund. The fund relies on a computer-based model to determine the allocation of index funds.

Global Balanced Fund – this fund invests in stocks and bonds of U.S. and international companies and government bonds issued by the U.S. and other governments.

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Citizens Core Growth Fund – this fund invests in stocks and bonds of U.S. and international companies and governments, with an emphasis on those that are managed in a socially responsible manner.

Pooled Investment Funds

Alaska Target 2005 Fund – the purpose of this fund is to provide a diversified mix of stocks, bonds, and cash for investors with a low tolerance for risk. The fund is designed to gradually invest more conservatively as the year 2005 approaches.

Alaska Target 2010 Fund – the purpose of this fund is to provide a diversified mix of stocks, bonds, and cash for long-term investors with a low to moderate tolerance for risk. This fund is designed to gradually invest more conservatively, with an emphasis on capital preservation, as the year 2010 approaches.

Alaska Target 2015 Fund – the purpose of this fund is to provide a diversified mix of stocks, bonds and cash for long-term investors with a moderate to high tolerance for risk. This fund is designed to gradually invest more conservatively, with an emphasis on capital preservation, as the year 2015 approaches.

Alaska Target 2020 Fund – the purpose of this fund is to provide a diversified mix of stocks, bonds, and cash for long-term investors with a high tolerance for risk. This fund is designed to gradually invest more conservatively, with an emphasis on capital preservation, as the year 2020 approaches.

Alaska Long-Term Balanced Fund – the purpose of this fund is to provide a balanced and diversified mix of stocks, bonds, federally guaranteed mortgages, and money market instruments for investors with an average risk tolerance.

Alaska Balanced Fund – the purpose of this fund is to provide a balanced and diversified mix of stocks, bonds, federally guaranteed mortgages, and money market instruments for investors with a low to average risk tolerance.

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Participant Directed Investments at January 31 Year End (in thousands)

	<u>2003</u>	<u>2002</u>
Alaska Balanced Fund	\$ 957,599	1,026,092
S&P Stock Index Fund	193,477	261,468
Short-term Investment Fund	109,176	98,265
Daily Govt./Corp. Bond Fund	86,555	47,663
Alaska Target 2015 Fund	65,570	85,103
Alaska Target 2010 Fund	42,410	48,446
Alaska Target 2005 Fund	23,221	22,314
Global Balanced Fund	21,865	24,972
Citizens Core Growth Fund	19,836	34,288
Tactical Asset Allocation Fund	15,204	19,018
Alaska Long-Term Balanced Fund	14,496	6,544
Small Cap Trust Fund	9,125	9,313
Alaska Target 2020 Fund	4,950	5,338
International Equity Fund	3,952	1,139

Investment Returns for the 12-Month Period Ended December 31, 2002 (Unaudited)

	1-Year Actual
International Equity Fund	(15.80)%
Small Cap Trust Fund	(15.06)
Citizens Core Growth Fund	(25.24)
S&P Stock Index Fund	(22.08)
Global Balanced Fund	(11.63)
Tactical Asset Allocation Fund	(11.89)
Daily Govt./Corp. Bond Fund	11.34
Short-term Investment Fund	1.98
Alaska Target 2005 Fund	(0.26)
Alaska Target 2010 Fund	(8.16)
Alaska Target 2015 Fund	(16.87)
Alaska Target 2020 Fund	(17.61)
Alaska Balanced Fund	(2.21)
Alaska Long-Term Balanced Fund	(9.70)

Fiduciary Responsibilities

The Alaska State Pension Investment Board, the plan administrator, and the Public Employee's Retirement Board are co-fiduciaries of the Plan. The assets of the plan can only be used for the exclusive benefit of the plan's participants, beneficiaries, and alternate payees.

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Request for Information

Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Alaska Division of Retirement & Benefits
Supplemental Benefits System
PO Box 110203
Juneau, Alaska 99811-0203

STATE OF ALASKA
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Statements of Fiduciary Net Assets

January 31, 2003 and 2002

(In thousands)

	<u>2003</u>	<u>2002</u>
Current assets:		
Cash and cash equivalent	\$ 915	711
Receivables:		
Mandatory contributions	4,932	4,630
Voluntary contributions	<u>206</u>	<u>202</u>
Total receivables	5,138	4,832
Investments:		
Collective investment funds, at fair value:		
Participant-directed	459,191	496,126
Money market fund	<u>2,294</u>	<u>2,220</u>
	461,485	498,346
Ownership of pooled investment funds, participant directed at fair value	<u>1,108,245</u>	<u>1,193,837</u>
Total investments	1,569,730	1,692,183
Investment Loss Trust Fund, at fair value	<u>1,606</u>	<u>1,594</u>
Total assets	<u>1,577,389</u>	<u>1,699,320</u>
Current liabilities:		
Payable to Plan participants	1,606	1,594
Accrued expenses	<u>778</u>	<u>900</u>
Total liabilities	<u>2,384</u>	<u>2,494</u>
Commitments and contingencies		
Net assets held in trust for individuals, organizations, and other governments	\$ <u><u>1,575,005</u></u>	<u><u>1,696,826</u></u>

See accompanying notes to financial statements.

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Statements of Changes in Fiduciary Net Assets

Years ended January 31, 2003 and 2002

(In thousands)

	<u>2003</u>	<u>2002</u>
Additions:		
Contributions:		
Mandatory	\$ 102,343	95,981
Voluntary	4,640	5,318
Total contributions	<u>106,983</u>	<u>101,299</u>
Investment income (loss):		
Net depreciation in fair market value of investments	(123,634)	(91,831)
Interest	58	122
Net investment loss	<u>(123,576)</u>	<u>(91,709)</u>
Total additions	<u>(16,593)</u>	<u>9,590</u>
Deductions:		
Benefits paid to participants and purchases of annuity contracts	98,060	104,382
Insurance premiums and contributions to State of Alaska self-insurance fund	4,718	5,378
Administrative expenses	2,450	2,648
Total deductions	<u>105,228</u>	<u>112,408</u>
Net decrease in net assets held in trust for individuals, organizations, and other governments	(121,821)	(102,818)
Net assets, beginning of year	<u>1,696,826</u>	<u>1,799,644</u>
Net assets, end of year	<u>\$ 1,575,005</u>	<u>1,696,826</u>

See accompanying notes to financial statements.

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(1) Description

The following brief description of the State of Alaska Supplemental Benefits System (Plan), a Component Unit of the State of Alaska, which is comprised of the Supplemental Annuity Plan and the Supplemental Benefits Plan, is provided for general information purposes only. Participants should refer to the Plan agreement for more complete information.

(a) General

The Plan was created by State of Alaska Statutes effective January 1, 1980, to provide benefits in lieu of those provided by the federal Social Security System (Social Security). All State of Alaska (State) employees who would have participated in Social Security, if the State had not withdrawn, participate in the Plan. Other employers whose employees participate in the State Public Employees' Retirement System and meet other requirements are eligible to have their employees participate in the Plan as provided by Alaska Statute. As of January 31, 2003 and 2002, there were fifteen other employers besides the State participating in the Plan. There were approximately 31,000 and 30,000 participants in the Plan as of January 31, 2003 and 2002, respectively.

The Division of Retirement and Benefits is responsible for Plan administration and recordkeeping. The Alaska State Pension Investment Board is responsible for the specific investment of moneys in the Plan.

(b) Contributions

Mandatory contributions are made to the Supplemental Annuity Plan, a defined contribution plan, and voluntary contributions to the Supplemental Benefits Plan. Participating employees are vested at all times.

Supplemental Annuity Plan contributions are made in lieu of contributions to Social Security. The State and other participating employers are required by statute to contribute 12.26% of an employee's wages up to the taxable wage base in effect under Social Security regulations. Each employee is considered to have agreed to a wage reduction equal to one-half the contribution made on the employee's behalf.

Supplemental Benefits Plan contributions are voluntary based upon the optional benefits elected by each employee enrolled in the Plan. Each employee agrees to a wage reduction based upon the benefit options selected. The benefit amounts are deducted from each employee's wages and remitted by the employer to the Plan on the employee's behalf.

(c) Participant Accounts

Participant accounts under the Supplemental Annuity Plan are self-directed with respect to investment options.

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At January 31, 2003, participants had the following investment options:

Collective Investment Funds

International Equity Fund – the purpose of this fund is to provide long-term capital appreciation. This fund invests principally in common and preferred stocks of foreign companies and securities that are convertible into such common stocks.

Small Cap Stock Trust Fund – the purpose of this fund is to provide long-term capital growth by investing primarily in stocks of small companies. This fund invests at least 65% of its total assets in the stocks and equity-related securities of small companies.

S&P 500 Stock Index Fund – the purpose of this fund is to provide income and capital appreciation matching the total return of the Standards & Poor's 500 Composite Stock Price Index.

Daily Government/Corporate Bond Fund – the purpose of this fund is to match or exceed the return of the Lehman Brothers Government/Credit Bond Index.

Short-term Investment Fund – the purpose of this fund is for the yield of the Fund to reflect short-term interest rates as it attempts to maintain a constant unit value.

Tactical Asset Allocation Fund – this fund invests in a mix of stocks and bonds, sometimes in a combination with a money market fund. The fund relies on a computer-based model to determine the allocation of index funds.

Global Balanced Fund – this fund invests in stocks and bonds of U.S. and international companies and government bonds issued by the U.S. and other governments.

Citizens Core Growth Fund – this fund invests in stocks and bonds of U.S. and international companies and governments, with an emphasis on those that are managed in a socially responsible manner.

Pooled Investment Funds

Alaska Target 2005 Fund – the purpose of this fund is to provide a diversified mix of stocks, bonds and cash for investors with a low tolerance for risk. The fund is designed to gradually invest more conservatively as the year 2005 approaches.

Alaska Target 2010 Fund – the purpose of this fund is to provide a diversified mix of stocks, bonds and cash for long-term investors with a low to moderate tolerance for risk. This fund is designed to gradually invest more conservatively, with an emphasis on capital preservation, as the year 2010 approaches.

Alaska Target 2015 Fund – the purpose of this fund is to provide a diversified mix of stocks, bonds and cash for long-term investors with a moderate to high tolerance for risk. This fund is designed to gradually invest more conservatively, with an emphasis on capital preservation, as the year 2015 approaches.

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Alaska Target 2020 Fund – the purpose of this fund is to provide a diversified mix of stocks, bonds and cash for long-term investors with a high tolerance for risk. This fund is designed to gradually invest more conservatively, with an emphasis on capital preservation, as the year 2020 approaches.

Alaska Long-Term Balanced Fund – the purpose of this fund is to provide a balanced and diversified mix of stocks, bonds, federally guaranteed mortgages, and money market instruments for investors with an average risk tolerance.

Alaska Balanced Fund – the purpose of this fund is to provide a balanced and diversified mix of stocks, bonds, federally guaranteed mortgages, and money market instruments for investors with a low to average risk tolerance.

Each participant designates how his or her contribution is to be allocated among the investment options. Each participant's account is credited with the participant's contributions and the appreciation or depreciation in unit value for the investment funds.

Recordkeeping/administrative fees consisting of a fixed amount, applied in a lump-sum each calendar year, and a variable amount, applied monthly, are deducted from each participant's account, applied pro rata to all the funds in which the employee participates. This fee is for all costs incurred by the recordkeeper and by the State. The investment management fees are netted out of the funds' performance.

(d) *Payment of Annuity Benefits*

Employees are eligible to withdraw from the Supplemental Annuity Plan sixty days after termination. Benefits are payable in the form of a lump sum annuity or one of various continuing annuities purchased from an insurance carrier, which are excluded from Plan assets. The Plan administrator issues lump-sum disbursements through its contracted recordkeeper.

(e) *Supplemental Benefits*

Benefits available under the Supplemental Benefits Plan include death, disability, survivor benefits, and dependent care reimbursement. Selection of these benefits is at the discretion of the employee, with certain restrictions, and may be amended and/or changed on an annual basis or in conjunction with an employee change in status.

All supplemental benefits, except dependent care reimbursement, are provided through insurance policies. The dependent care reimbursement program is administered by the State.

(f) *Funding of the Plan*

Supplemental annuity contributions from employers were deposited with investment managers under contract with the Plan for the years ended January 31, 2003 and 2002. The amounts credited to each participant account include the appreciation or depreciation in the unit values of the investment funds in addition to participant contributions received during the year.

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(g) *Effect of Plan Termination*

Although the State has established the Plan with the bona fide intention and expectation that it will continue the Plan indefinitely, the State may in its sole and absolute discretion terminate the Plan in whole or in part at any time without liability whatsoever for such termination. If the Plan is terminated, the deposit contracts shall remain in force until all individual employee benefit accounts have been completely distributed in accordance with the Plan.

The employers are under no obligation or liability to continue making contributions to, or participate in, the Plan. Employers in their sole and absolute discretion may discontinue participation and contributions with no liability whatsoever for such termination except liability to the State under the terms of the participation agreement.

(h) *Income Taxes*

The Plan is exempt from federal income taxes under the provisions of Section 501(a) of the Internal Revenue Code.

(2) Summary of Significant Accounting Policies

(a) *Basis of Accounting*

The Plan's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. In preparing the financial statements, the plan administrator is required to make estimates that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements, and additions and deductions for the reporting periods. Actual results could differ from those estimates.

(b) *Valuation of Collective Investment Funds*

The Plan's investments in collective investment funds (note 3), held in trust, are stated at fair value based on the unit value as reported by the Trustees multiplied by the number of units held by the Plan. The unit value is determined by the Trustees based on the fair value of the underlying assets. Purchases and sales of securities are recorded on a trade-date basis.

(c) *Valuation of Ownership of Pooled Investment Funds*

The Plan's ownership of pooled investment funds (note 4), held in trust, are stated at fair value based on the unit values as reported by the Trustees multiplied by the number of units held by the Plan. The unit value is determined by the Trustees based on the fair value of the underlying assets. Purchases and sales of securities are recorded on a trade-date basis.

(d) *Cash and Cash Equivalents*

Cash and cash equivalents at January 31, 2003 and 2002 are comprised of interest-bearing deposits.

(e) *Contributions Receivable*

Contributions applicable to wages earned through January 31 are accrued. These contributions are considered fully collectible and, accordingly, no allowance for doubtful accounts is considered necessary.

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(f) GASB Statement No. 34

The Plan adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* (GASB No. 34) on February 1, 2002, concurrent with the State of Alaska’s adoption of GASB No. 34. This statement, known as the “reporting model” statement, affects the way the Plan presents financial information. GASB No. 34 requires the basic financial statements of fiduciary funds to include statements of fiduciary net assets and statements of changes in fiduciary net assets. Modifications made to the Plan’s financial reporting model as a result of the adoption of GASB No. 34 include presentation of management’s discussion and analysis (as required supplementary information) and presentation of assets and liabilities in a classified format. The 2002 financial statements have been adjusted to conform to the requirements of GASB No. 34.

(3) Collective Investment Funds

The Plan’s investments at January 31 include the following collective investment funds:

	2003			2002		
	Units owned	Unit value	Balance (in thousands)	Units owned	Unit value	Balance (in thousands)
S&P 500 Stock Index Fund	13,045	\$ 14.831	193,477	13,574	\$ 19.262	261,468
Citizens Core Growth Fund	1,661	11.940	19,836	2,119	16.180	34,288
Daily Government/Corporate Bond Fund	5,471	15.821	86,556	3,322	14.348	47,663
Short-term Investment Fund	7,868	13.876	109,177	7,204	13.640	98,265
Tactical Asset Allocation Fund	1,932	7.870	15,204	2,108	9.020	19,018
Global Balanced Fund	1,128	19.380	21,864	1,140	21.910	24,972
Small Cap Stock Trust Fund	438	20.820	9,125	367	25.380	9,313
International Equity Fund	331	11.950	3,952	79	14.400	1,139
Money Market Fund	150	14.446	2,294	156	14.256	2,220
Total collective investment funds			<u>\$ 461,485</u>			<u>\$ 498,346</u>

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(Dollars in thousands)

(4) Ownership of Pooled Investment Funds

The Plan has formed six pooled investment funds which six of the participant directed funds invest in. The pooled investment funds are wholly owned by the six participant directed funds. The pooled investment funds, and their investments, are as follows as of January 31:

	GNMA Pool	Government/ Corporate Pool	Cash Pool	Equity Pool	Small Cap Pool	International Equity Pool	Total
2003:							
Deposits – cash and cash equivalents and accrued interest	\$ 47,093	10,559	28,553	587	26	933	87,751
Asset backed securities	—	44	—	—	—	—	44
Mortgage backed securities	122,746	—	—	—	—	—	122,746
Corporate notes and bonds	—	187,688	3,387	—	—	—	191,075
U.S. Treasury securities	3,565	168,359	—	—	—	—	171,924
Federal agency government debt	—	89,097	—	—	—	—	89,097
Equity	—	—	—	366,153	37,253	42,202	445,608
Total investments	\$ 173,404	455,747	31,940	366,740	37,279	43,135	1,108,245

Ownership in the above pooled investments funds is summarized as follows:

Alaska Target 2005 Fund	0.41%	1.39%	39.90%	0.97%	0.00%	0.00%	2.10%
Alaska Target 2010 Fund	0.86%	2.92%	25.41%	5.00%	3.42%	0.00%	3.83%
Alaska Target 2015 Fund	0.43%	1.76%	19.79%	11.46%	13.78%	8.49%	5.93%
Alaska Target 2020 Fund	0.00%	0.06%	0.77%	0.94%	1.32%	1.15%	0.45%
Alaska Long-term Balanced Fund	0.93%	0.80%	0.44%	2.01%	1.88%	1.31%	1.27%
Alaska Balanced Fund	97.37%	93.07%	13.69%	79.62%	79.60%	89.05%	86.42%
	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

	GNMA Pool	Government/ Corporate Pool	Cash Pool	Equity Pool	Small Cap Pool	International Equity Pool	Total
2002:							
Deposits – cash and cash equivalents and accrued interest	\$ 22,904	9,529	28,904	478	181	700	62,696
Asset backed securities	—	124	—	—	—	—	124
Mortgage backed securities	153,334	2,620	—	—	—	—	155,954
Corporate notes and bonds	—	213,909	508	—	—	—	214,417
U.S. Treasury securities	—	191,705	—	—	—	—	191,705
Federal agency government debt	—	77,505	—	—	—	—	77,505
Equity	—	—	—	396,799	47,816	46,821	491,436
Total investments	\$ 176,238	495,392	29,412	397,277	47,997	47,521	1,193,837

Ownership in the above pooled investments funds is summarized as follows:

Alaska Target 2005 Fund	0.35%	1.72%	27.02%	1.33%	0.00%	0.00%	1.87%
Alaska Target 2010 Fund	0.17%	2.54%	25.61%	6.49%	4.80%	0.00%	4.06%
Alaska Target 2015 Fund	0.06%	1.19%	17.51%	14.67%	16.96%	15.87%	7.13%
Alaska Target 2020 Fund	0.00%	0.08%	0.87%	0.89%	1.06%	1.05%	0.44%
Alaska Long-term Balanced Fund	0.45%	0.36%	0.22%	0.84%	0.69%	0.54%	0.55%
Alaska Balanced Fund	98.97%	94.11%	28.77%	75.78%	76.49%	82.54%	85.96%
	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

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(Dollars in thousands)

(5) Changes in Fiduciary Net Assets

During the years ended January 31, 2003 and 2002 the following changes in fiduciary net assets by fund took place:

	Participant directed							
	International Equity Fund	Small Cap Stock Trust Fund	Citizens Core Growth Fund	S&P 500 Stock Index Fund	Global Balanced Fund	Tactical Asset Allocation Fund	Daily Government/ Corporate Bond Fund	Short-term Investment Fund
2003:								
Additions:								
Contributions:								
Mandatory contributions:	\$ 384	952	2,323	14,392	1,472	959	3,105	3,642
Voluntary contributions:	—	—	—	—	—	—	—	—
Total contributions	384	952	2,323	14,392	1,472	959	3,105	3,642
Investment income (loss):								
Net appreciation (depreciation) in fair market value of investment:	(1,203)	(3,196)	(8,157)	(60,209)	(3,340)	(2,397)	5,655	1,762
Interest income:	—	—	—	—	—	—	—	—
Net investment income (loss)	(1,203)	(3,196)	(8,157)	(60,209)	(3,340)	(2,397)	5,655	1,762
Total additions	(819)	(2,244)	(5,834)	(45,817)	(1,868)	(1,438)	8,760	5,404
Deductions:								
Benefits paid to participants and purchases of annuity contracts:	195	341	901	7,075	918	421	5,592	18,782
Insurance premiums and contributions to State of Alaska self-insurance fund:	—	—	—	—	—	—	—	—
Administrative expenses:	—	—	—	—	—	—	—	—
Actual expenses paid:	7	17	42	343	35	25	91	137
Expenses deducted from participant account	—	—	—	—	—	—	—	—
Total deductions	202	358	943	7,418	953	446	5,683	18,919
Net increase (decrease) prior to interfund transfers	(1,021)	(2,602)	(6,777)	(53,235)	(2,821)	(1,884)	3,077	(13,515)
Interfund transfers	3,834	2,414	(7,675)	(14,756)	(286)	(1,930)	35,815	24,426
Net increase (decrease) in net assets held in trust for individuals organizations, and other government	2,813	(188)	(14,452)	(67,991)	(3,107)	(3,814)	38,892	10,911
Net assets, beginning of year	1,139	9,313	34,288	261,468	24,972	19,018	47,663	98,265
Net assets, end of year	\$ 3,952	9,125	19,836	193,477	21,865	15,204	86,555	109,176

						Nonparticipant directed				
Alaska Target 2005 Fund	Alaska Target 2010 Fund	Alaska Target 2015 Fund	Alaska Target 2020 Fund	Alaska Balanced Fund	Alaska Long Term Balanced Fund	Money Market Fund	Cash and cash equivalents	Contributions receivable	Accrued expenses	Total
765	1,967	4,341	552	58,322	8,865	—	—	302	—	102,343
—	—	—	—	—	—	—	4,636	4	—	4,640
765	1,967	4,341	552	58,322	8,865	—	4,636	306	—	106,983
(139)	(4,229)	(14,784)	(1,213)	(31,057)	(1,127)	—	—	—	—	(123,634)
—	—	—	—	—	—	22	36	—	—	58
(139)	(4,229)	(14,784)	(1,213)	(31,057)	(1,127)	22	36	—	—	(123,576)
626	(2,262)	(10,443)	(661)	27,265	7,738	22	4,672	306	—	(16,593)
1,102	1,184	1,469	305	59,151	624	—	—	—	—	98,060
—	—	—	—	—	—	—	4,698	—	20	4,718
—	—	—	—	—	—	1,622	970	—	(142)	2,450
30	62	112	10	1,713	250	(2,874)	—	—	—	—
1,132	1,246	1,581	315	60,864	874	(1,252)	5,668	—	(122)	105,228
(506)	(3,508)	(12,024)	(976)	(33,599)	6,864	1,274	(996)	306	122	(121,821)
1,413	(2,528)	(7,509)	588	(34,894)	1,088	(1,200)	1,200	—	—	—
907	(6,036)	(19,533)	(388)	(68,493)	7,952	74	204	306	122	(121,821)
22,314	48,446	85,103	5,338	1,026,092	6,544	2,220	711	4,832	(900)	1,696,826
23,221	42,410	65,570	4,950	957,599	14,496	2,294	915	5,138	(778)	1,575,005

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		Participant directed							
		International Equity Fund	Small Cap Stock Trust Fund	Citizens Core Growth Fund	S&P 500 Stock Index Fund	Global Balanced Fund	Tactical Asset Allocation Fund	Daily Government/ Corporate Bond Fund	Short-term Investment Fund
2002:									
Additions:									
Contributions:									
Mandatory contributions	\$	16	100	2,913	15,426	1,346	1,106	2,030	2,979
Voluntary contributions		—	—	—	—	—	—	—	—
Total contributions		16	100	2,913	15,426	1,346	1,106	2,030	2,979
Investment income (loss):									
Net appreciation (depreciation) in fair market value of investments		3	629	(13,429)	(54,160)	(2,897)	(2,361)	2,739	3,659
Interest income		—	—	—	—	—	—	—	—
Net investment income (loss)		3	629	(13,429)	(54,160)	(2,897)	(2,361)	2,739	3,659
Total additions		19	729	(10,516)	(38,734)	(1,551)	(1,255)	4,769	6,638
Deductions:									
Benefits paid to participants and purchases of annuity contracts		—	11	1,602	11,440	1,551	1,141	4,023	15,529
Insurance premiums and contributions to State of Alaska self-insurance fund		—	—	—	—	—	—	—	—
Administrative expenses:									
Actual expenses paid		—	—	—	—	—	—	—	—
Expenses deducted from participant accounts		1	4	59	408	37	30	61	127
Total deductions		1	15	1,661	11,848	1,588	1,171	4,084	15,656
Net increase (decrease) prior to interfund transfers		18	714	(12,177)	(50,582)	(3,139)	(2,426)	685	(9,018)
Interfund transfers		1,121	8,599	(6,477)	(16,395)	(4,348)	(2,212)	28,335	20,899
Net increase (decrease) in net assets held in trust for individuals, organizations, and other government:		1,139	9,313	(18,654)	(66,977)	(7,487)	(4,638)	29,020	11,881
Net assets, beginning of year		—	—	52,942	328,445	32,459	23,656	18,643	86,384
Net assets, end of year	\$	1,139	9,313	34,288	261,468	24,972	19,018	47,663	98,265

Alaska Target 2005 Fund	Alaska Target 2010 Fund	Alaska Target 2015 Fund	Alaska Target 2020 Fund	Alaska Balanced Fund	Alaska Long Term Balanced Fund	Nonparticipant directed				Total
						Money Market Fund	Cash and cash equivalents	Contributions receivable	Accrued expenses	
741	2,075	4,702	410	60,337	1,555	—	—	245	—	95,981
—	—	—	—	—	—	—	5,403	(85)	—	5,318
741	2,075	4,702	410	60,337	1,555	—	5,403	160	—	101,299
210	(3,903)	(14,002)	(568)	(7,799)	48	—	—	—	—	(91,831)
—	—	—	—	—	—	42	80	—	—	122
210	(3,903)	(14,002)	(568)	(7,799)	48	42	80	—	—	(91,709)
951	(1,828)	(9,300)	(158)	52,538	1,603	42	5,483	160	—	9,590
715	1,664	2,974	197	63,512	23	—	—	—	—	104,382
—	—	—	—	—	—	—	5,622	—	(244)	5,378
—	—	—	—	—	—	1,601	1,010	—	37	2,648
28	68	131	8	1,870	94	(2,926)	—	—	—	—
743	1,732	3,105	205	65,382	117	(1,325)	6,632	—	(207)	112,408
208	(3,560)	(12,405)	(363)	(12,844)	1,486	1,367	(1,149)	160	207	(102,818)
2,249	(3,455)	(10,275)	2,881	(25,981)	5,058	(600)	601	—	—	—
2,457	(7,015)	(22,680)	2,518	(38,825)	6,544	767	(548)	160	207	(102,818)
19,857	55,461	107,783	2,820	1,064,917	—	1,453	1,259	4,672	(1,107)	1,799,644
22,314	48,446	85,103	5,338	1,026,092	6,544	2,220	711	4,832	(900)	1,696,826

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(6) Investment Loss Trust Fund

Deposits with contract values of \$131,805 at January 31, 1991 were invested in guaranteed investment contracts with Executive Life Insurance Company (Executive Life), which was taken over by California State Regulators in April 1991, resulting in uncertainty about the value of these Plan assets.

To address this situation, the Investment Loss Trust Fund (Fund) was established by Alaska Statute 37.14.300. The Alaska Department of Administration is to spend that Fund as necessary to hold participants in the Plan and annuity holders (with Executive Life) harmless from a loss of value in the investment and annuity contracts issued by Executive Life.

The hold harmless loss limit was the principal plus accrued interest through May 3, 1991, plus earnings by the Fund on that balance since that date, less a portion of earnings to be used to pursue recovery (at a 1% rate) of the investment value and protect the interest of Plan participants and annuity holders. Unpaid annuity amounts due to current annuity holders under contracts issued by Executive Life are also covered by the Fund.

The Fund was capitalized with \$138,100 of appropriations by the State. The physical control and ownership of the assets of the Fund are under the control of the State, and not the Plan. However, through the Fund legislation and the Partial Interim Settlement Agreement in *Maupin, et al vs. State of Alaska, et al*, 3AN-91-6006 Civil, the participants in the Plan are held harmless to the extent allowed by law. Therefore, the amount represented by the asset, the Fund, is the amount computed to be the incremented hold harmless limit.

In February 1994, the State and the Plan elected to opt out of the plan of rehabilitation for Executive Life. By that action, which covered the guaranteed investment contracts issued before January 1, 1989, and a favorable ruling by the California Court of Appeals (as supported by the election of the California Supreme Court not to hear a further appeal of that ruling) which related to the contracts issued after 1989, the Plan received from the conservator, and therefore ultimately the State of Alaska received payments of \$133,726 through January 31, 2003.

The availability of the amounts from the conservator did not affect the Partial Interim Settlement Agreement approved in 1992 by the Alaska Superior Court in *Maupin, et al vs. State of Alaska* as it related to the accounts of individual participants. From May 1991 through October 1995 the Plan recorded the assets of the Fund in lieu of carrying the Executive Life investment contracts. Also included were assets set aside to hold harmless those who had continuing annuity contracts with Aurora National Life Assurance Company.

At January 31, 2003 and 2002, the Fund was comprised as follows:

	2003	2002
Cash and cash equivalents	\$ 1,606	1,594

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With the receipt of the October 1995 Executive Life Settlements, the amounts represented by Investment Loss Trust Fund assets, and the accumulated earnings thereon in individual accounts, were moved to the corresponding member's regular annuity plan account and their Investment Loss Trust Fund account closed. In April 1996, the Alaska Superior Court approved a final settlement with the State of Alaska that does not contemplate the making of any further payments by the State of Alaska to the members of the Class in *Maupin, et al vs. State of Alaska* beyond the payments already made pursuant to the Partial Interim Settlement Agreement described previously. During 2000, the State of Alaska Legislature appropriated a portion of the Fund assets, totaling \$4 million, to be used for other purposes.

The remaining assets of the Fund relate to continuing annuity contracts with Executive Life and are managed by the State Treasury.

(7) Credit Risk

To provide an indication of the level of credit risk assumed by the Plan at January 31, 2003, the Plan's deposits and investments are categorized as follows:

(a) Deposits

Category 1 – Insured or collateralized with securities held by the Plan or its custodian in the Plan's name.

Category 2 – Collateralized with securities held by the pledging financial institution's trust department or custodian in the Plan's name.

Category 3 – Uncollateralized.

(b) Investments

Category 1 – Insured or registered for which the securities are held by the Plan or its custodian in the Plan's name.

Category 2 – Uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Plan's name.

Category 3 – Uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent but not in the Plan's name.

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	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Not categorized</u>	<u>Market value and carrying value</u>
Deposits – cash and cash equivalents	\$ —	—	—	915	915
Investments:					
Collective investment funds	—	—	—	461,485	461,485
Ownership of pooled investment funds	1,058,133	—	—	50,112	1,108,245
Investment Loss Trust Fund:					
Deposits – cash and cash equivalents	—	—	—	1,606	1,606
	<u>\$ 1,058,133</u>	<u>—</u>	<u>—</u>	<u>514,118</u>	<u>1,572,251</u>

Investments in collective investment funds cannot be categorized into one of the above three risk categories because they represent interests in funds rather than ownership of specific securities.

The Plan's share of ownership in specific pooled investment funds totaled \$1,058,133 at January 31, 2003. All of the underlying securities in the pools in which the Plan participates are considered to be Category 1 and are held by the custodian in the Plan's name. Ownership of pooled investment funds totaling \$50,112 represents residual cash which has not been invested in specific pooled investment funds as of January 31, 2003 and cannot be categorized with regards to credit risk.